The Common Message

2024-25 First Interim Report

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Sources

Association of California School Administrators
Ball/Frost Group, LLC
California Association of School Business Officials
California Collaborative for Educational Excellence
California Department of Education
California Department of Finance
California Public Employees' Retirement System
California State Teachers' Retirement System
California State Board of Education
California School Boards Association
California School Information Services
Capitol Advisors
Fiscal Crisis and Management Assistance Team
K-12 High Speed Network
National Forest Counties and Schools Coalition
School Services of California
Small School Districts' Association
Statewide Local Educational Consortium Co-Chairs
WestEd

First Interim Report Key Guidance

Governor Newsom signed several budget and trailer bills before the end of June to adopt and implement the 2024-25 State Budget. On June 26, 2024, Assembly Bill (AB) 107 was signed as the Budget Act of 2024. Three days later, on June 29, 2024, both Senate Bill (SB) 108 (Budget Bill Junior #1) and SB 153 (Education Omnibus Budget Trailer Bill) were also signed. The budget preserved most of the proposals from the May Revision, with a few additional changes.

The final budget agreement between the governor and the Legislature addressed the state's budget challenges through reserve drawdowns, spending reductions, new revenue proposals, internal borrowing, funding delays, fund shifts, and deferrals. In the negotiations leading up to the approved 2024-25 State Budget, the governor abandoned earlier funding proposals in favor of suspending Proposition 98 for 2023-24 and creating an $8.33 billion maintenance factor. This amount will be repaid to LEAs starting with a $4.07 billion payment in 2024-25.

On September 30, 2024, AB 176 (Education Omnibus Budget Trailer Bill #2) was signed, introducing revisions to the enacted budget provisions.

Major provisions in the 2024-25 State Budget include:

- The funded COLA for the Local Control Funding Formula (LCFF), special education and several other categorical programs outside the LCFF remains at 1.07%.
- To develop the budget package, the state finance team created deferrals in prior budget years that did not directly affect LEAs' past budgets or cash flow. Looking forward, the budget imposes a partial deferral of $245.6 million from the June 2025 payment to July 2025 — less than 5% of the most recent June second principal apportionment payment. LEAs unable to meet their financial obligations may apply for exemptions from the deferral.
- Several provisions to allow students make up lost instructional time, thereby offsetting student absences and mitigating learning loss. These provisions take effect July 1, 2025 (see the "Attendance Recovery" and "Instructional Continuity" sections of this message for details).
- The budget includes a $100 million investment in the Inclusive Early Education Expansion Program to increase access to inclusive early care and education for children from birth to five years of age.
- The budget foregoes a planned investment of $550 million to support the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program in 2024-25.
- Suspension of the August 15 summer layoff window for certificated and classified staff during the 2024-25 fiscal year.

While the budget has many positive aspects, many LEAs continue to experience chronic student absences, long-term declining enrollment, and various cost pressures such as rising pension rates and energy costs. In addition, all remaining COVID-19 fiscal relief funds (e.g., the Elementary and Secondary School Emergency Relief Fund and the Expanded Learning Opportunities Grant) expired on September 30, 2024. Further, the Arts, Music and Instructional Materials Discretionary Block Grant and the Educator Effectiveness Block Grant will expire on June 30, 2026, while the Learning Recovery Emergency Block Grant (LREBG) is set to expire on June 30, 2028.

Possible Government Shutdown

There is a significant risk of a federal government shutdown because Congress has been unable to pass a budget or a Continuing Resolution to maintain funding beyond mid-December 2024. Past shutdowns have had minimal fiscal impact on K-12 education, because most LEA funding comes from state and local sources, and the majority of federal aid is disbursed by July 1. As a result, the current year's Title I and Individuals with Disabilities Education Act funds have already been disbursed to LEAs. However, a shutdown could disrupt federal school meal reimbursements and federally funded childcare services, such as Head Start.

Planning Factors for 2024-25 and Multiyear Projections

The following key planning factors should be incorporated into LEAs' 2024-25 First Interim Reports and multiyear projections (MYPs). These factors are based on the most up-to-date information available:

Key Planning Factors for 2024-25 First Interim Reports and MYPs

Planning Factor	2024-25	2025-26	2026-27
Cost-of-Living Adjustment (COLA)			
Local Control Funding Formula (LCFF) COLA	1.07%	2.93%	3.08%
Special Education COLA	1.07%	2.93%	3.08%
Employer Benefit Rates			
CalSTRS	19.10%	19.10%	19.10%
CalPERS-Schools	27.05%	27.40%	27.50%
State Unemployment Insurance	0.05%	0.05%	0.05%

Lottery			
Unrestricted per Average Daily Attendance (ADA)	$191.00	$191.00	$191.00
Proposition 20 per ADA	$82.00	$82.00	$82.00
Minimum Wage	$16.50[1]	$17.00[2]	$17.40[3]
Universal Transitional Kindergarten (TK)/ADA LCFF add-on for the 12-to-1 student-to-adult ratio	$3,077.00[4]	$3,167.00[4]	$3,265.00[4]
Mandate Block Grant			
School Districts			
Grades K-8 per ADA	$38.21[5]	$39.33	$40.54
Grades 9-12 per ADA	$73.62[5]	$75.78	$78.11
Charter Schools			
Grades K-8 per ADA	$20.06[5]	$20.66	$21.29
Grades 9-12 per ADA	$55.76[5]	$57.39	$59.16

[1]Effective January 1, 2025, [2]Effective January 1, 2026, [3]Effective January 1, 2027.
Note: for footnote numbers 2-3, Proposition 32 on the November 5, 2024 ballot could increase minimum wage to $18 per hour by 2026
[4]Funding is based on TK ADA only and is in addition to the adjusted base grant amount. It is further adjusted by the statutory COLA each year.
[5]The 2024-25 rate does not factor in the impact of $25 million for the proposed training to support literacy screenings.

Deficit Spending

Statewide declining enrollment, combined with the expiration of federal one-time funds, may lead to district deficit spending. It is crucial to distinguish between the portions of the deficit that are ongoing and those that are one-time. As districts work to balance their budgets, any significant reductions reflected in their multiyear financial projections should be addressed through concrete spending reduction plans or accompanied by a fiscal solvency statement outlining the governing board's commitment to address future reductions. Additionally, conducting monthly cash flow analyses is essential for identifying financial trends and avoiding cash shortages. For more information, refer to FCMAT's April 2020 fiscal alert about effective cash management during uncertain times.

Below is sample language for a fiscal solvency statement, which may be used as a stand-alone resolution or included with the approval of the interim budget:

> In preparing the 2024-25 First Interim Budget, the Board acknowledges its fiduciary responsibility to maintain fiscal solvency for the current year and the subsequent two fiscal years.
>
> Based on the 2024-25 State Budget Act and anticipated increases in ongoing costs, the Board anticipates the need for $XX million in ongoing budget reductions in 2025-26 to maintain fiscal solvency.
>
> Furthermore, it is recognized that a Board-approved budget reduction list for 2025-26 and an implementation timeline will be included with the 2024-25 Second Interim Report submission.

As districts potentially face declining fund balances, it is important to exercise caution when identifying funds for negotiated salary increases. Modest revenue gains from the COLA may be offset by declining enrollment and rising payroll costs, including retirement and health benefit rates. Each district's ability to manage and sustain salary increases will vary based on its unique financial circumstances.

Since deficit spending reduces fund balance reserves, maintaining substantial reserves is essential to safeguard against potential future economic downturns. The Government Finance Officers Association recommends reserves of at least 17%, which typically covers about two months of salary expenses for most organizations. Although school districts may face reserve cap limitations on assigned and unassigned fund balances during periods of state revenue, it remains prudent to regularly review overall reserves to ensure long-term financial stability. Please note the reserve cap is not applicable for 2024-25, but could become effective in future years. For more information, refer to FCMAT's March 2022 fiscal alert about managing local reserves under the cap.

Attendance Recovery

As outlined in the 45-Day Budget Revision, beginning July 1, 2025, school districts, classroom-based charter schools, and county offices of education (COES) may provide attendance recovery programs to classroom-based students to make up for lost instructional time, offset absences, and mitigate the associated learning loss and fiscal impacts. A few key elements of the program include:

- Beginning in fiscal year 2025-26, LEAs can add up to 10 days or a student's total absences for the current year, whichever is fewer, as attendance recovery time per pupil for ADA reporting.
- Attendance credit is limited to a maximum of five days per school week for school districts and COEs, and one day per calendar day on which instruction is provided for charter schools.
- Recovery time must be taught by certificated teachers.

- Participation is voluntary and at the election of the student, parent or guardian.
- Attendance recovery program pupil-to-certificated-teacher ratios are 10-to-1 for TK and K, and 20-to-1 for grades 1-12, inclusive.
- Expanded Learning Opportunity Program (ELOP) funds may be used to fund attendance recovery programs in conjunction with, and at the same site(s) as, the LEA's ELOP activities.

Instructional Continuity

The 2024-25 State Budget's instructional continuity provisions focus on facilitating continuity of learning during emergency events that disrupt regular classroom instruction.

Beginning July 1, 2026, as part of the J-13A waiver, LEAs must incorporate an instructional continuity plan into their School Safety Plan. These plans must include procedures for engaging students within five days of an emergency and providing hybrid or remote learning opportunities within 10 instructional days.

When students must be absent for any reason, the budget encourages LEAs to provide remote instruction to mitigate learning loss by streamlining independent study. It also allows LEAs to earn ADA-related funding for independent study, regardless of duration.

Independent Study

The 2024-25 State Budget includes statutory changes to independent study that are effective in the current fiscal year and beyond. These changes include:

- Eliminating the requirement for students to participate for a minimum of three consecutive school days before earning ADA.
- Increasing the allowable duration of short-term independent study to 15 days or fewer.
- Defining long-term independent study as 16 days or more.
- Authorizing LEAs to collect signed written agreements for short-term independent study at any time during the year, while maintaining the requirement that agreements be signed and collected before the start of long-term independent study.
- Expanding the definition of pupil work product to include the daily time value a student spends engaged in asynchronous instruction, regardless of whether work product is produced.

Independent study cannot be used to retroactively capture ADA for prior absences. For additional details on recovering ADA for previous absences, please refer to the "Attendance Recovery" section of this message.

In addition, the budget and subsequent cleanup legislation clarified that the time value of pupil work product and asynchronous instruction must first be documented in hours or fractions of an hour before being converted to days of attendance for all students participating in independent study, whether through COEs, school districts, or charter schools.

Expanded Learning Opportunities Program

The 2024-25 State budget imposed new expenditure deadlines for ELOP allocations. Beginning with the 2023-24 ELOP allocation, LEAs will have two fiscal years to spend the funds, meaning the 2024-25 allocation must be expended by June 30, 2026. Any funds not expended by the applicable deadline “shall be returned to the state.”

Beginning in 2025-26, “school districts and charter schools shall annually declare their operational intent to run the Expanded Learning Opportunities Program.” This requirement means LEAs will need to affirmatively opt into the program each year to receive funding.

Any unexpended 2021-22 and 2022-23 ELOP funds recovered by the state will be reallocated in 2024-25 to increase the Tier 2 rate up to $2,000 per applicable ADA for participating LEAs. In addition, the budget trailer bill stipulates that beginning in 2025-26, any ELOP savings resulting from LEAs opting out of the program “***may*** be reallocated” to Tier 2 LEAs “to the extent possible.” As a reminder, final expenditure reports for 2021-22 and 2022-23 are due to CDE by October 31, 2024.

Transitional Kindergarten

The 2023-24 State Budget introduced the following changes to TK staffing requirements:

- Beginning in 2023-24, any LEA enrolling “early enrollment children” — those whose fourth birthday falls between June 3 and September 1 prior to the school year — must maintain a 10-to-1 student-to-adult ratio and limit class sizes to a maximum of 20 students for classes that include an early enrollment child.
    - The “early enrollment child” state will become inoperative with the full implementation of TK in the 2025-26 school year.
- Beginning in 2025-26, all TK classrooms must be staffed at a 10-to-1 student-to-adult ratio. While the legislature intends to provide funding to support this staffing ratio, compliance with the ratio is no longer contingent on receiving additional funding. Districts will need to incorporate this lower staffing ratio into their First Interim MYPs.
- Also starting in 2025-26, credentialed teachers assigned to TK classes (including independent study), must meet **one** of the following criteria by August 1, 2025:
    - Have completed at least 24 units in early childhood education, childhood development, or both.
    - Have professional experience in a classroom setting with preschool-age children, as determined and documented by the employing LEA, that is comparable to 24 units of relevant education and meets the criteria established by the LEA’s governing board or body.
    - Hold a child development teacher permit or an early childhood education specialist credential issued by the California Commission on Teacher Credentialing.

Local Control and Accountability Plan (LCAP)

LCAP and the Learning Recovery Emergency Block Grant (LREBG)

The 2024-25 State Budget mandates revisions to the LCAP template instructions to implement the settlement agreement from the Cayla J. lawsuit. These changes impose new requirements for the use of LREBG funds starting in 2025-26. LREBG funds expended between 2025-26 and 2027-28 must be supported by a needs assessment, with both planned and actual expenditures documented in the LEA's LCAP. Additionally, interim expenditure reporting for LREBG is due to the California Department of Education (CDE) by December 15, 2024.

The State Board of Education (SBE) reviewed draft changes to the LCAP instructions at its September 2024 meeting (see Agenda Item #03). Based on discussions at the meeting, the SBE appears to be in favor of what the CDE presented as Option 2, which would provide LEAs with the flexibility to integrate actions supported by LREBG funds into their existing LCAPs. The SBE is expected to approve the changes to the LCAP instructions at its November 2024 meeting.

LCAP and the LCFF Equity Multiplier

The 2024-25 fiscal year marks the first time LEAs are required to document the planned uses of Equity Multiplier funding in their LCAPs. As a reminder, a school's eligibility for Equity Multiplier funds may vary annually based on changes in its non-stability rate and/or its percentage of socioeconomically disadvantaged pupils. Funding is allocated to LEAs for schools with prior year non-stability rates exceeding 25% and prior year socioeconomically disadvantaged pupil rates (as defined here) exceeding 70%.

While 2023-24 enrollment data is available to determine a school's percentage of socioeconomically disadvantaged pupils, the CDE has not yet released the 2023-24 stability rate data (which will be published here). Eligibility and funding for 2024-25 will be included with the 2024-25 first principal apportionment in February 2025. Furthermore, forecasting whether Equity Multiplier funding will be received in future years is fraught with uncertainty.

Because of the year-to-year uncertainty surrounding the receipt of Equity Multiplier funds, LEAs may consider incorporating certified prior year funding allocations into their 2025-26 budget and LCAP (i.e., plan to use certified 2024-25 allocations in the 2025-26 budget and LCAP).

Midyear Update

As a reminder, LEAs must present a midyear LCAP update annually by February 28.

Summary

It is too early in the fiscal year to gauge any significant trends in state revenue that will influence the levels of Proposition 98 funding for 2025-26 and beyond (including the obligations to fund the maintenance factor created in the most recent budget act). Local Educational Agencies will need to closely monitor state revenues and state budget proposals. Moreover, LEAs also face near and long-term challenges, including risks to the state revenue forecast, higher absence rates, rising cost pressures (e.g., pension rate increases), the expiration of one-time COVID-19 relief funds, and declining enrollment. Given the unique funding and programmatic needs of each LEA, it is crucial that they continuously assess their individual situations, work closely with their COE, and develop comprehensive plans to maintain fiscal solvency while preserving the integrity of their educational programs.